



CollegeAdvantage™

A 529 Savings Plan

Written Testimony of

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**Committee on Financial Services
Subcommittee on Capital Markets, Insurance, and
Government Sponsored Enterprises**

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"Investing for the Future: 529 State Tuition Savings Plans"

Mr. Chairman and Members of the Committee, thank you for the opportunity to speak with you about 529 plans, and to share one state's history and philosophy regarding these plans. My name is Jacqueline Williams. I am the Executive Director of the Ohio Tuition Trust Authority and a member of the Executive Committee of the College Savings Plans Network.

The Ohio Tuition Trust Authority is a self-supporting state agency, governed by an 11-member Board of Directors. Ohio's Governor appoints six members representing business and higher education; the Speaker of the House and the Senate President each appoints one member from the respective legislative body from each political party and the Chancellor of the Ohio Board of Regents (or his designee) is an ex-officio voting member. Ohio was one of the first states to offer a qualified tuition program when the Ohio General Assembly created the Trust in 1989. The legislative intent of the agency was to help make higher education affordable and accessible to Ohio citizens; to assist state institutions of higher education by providing a stable financial base; to protect the citizens of Ohio from rising tuition costs; to encourage savings; and to promote elementary, secondary and post-

secondary academic excellence. Since 1989, 14,000 students have attended college using over \$166 million invested in Ohio's plan.

According to the recently completed report of the Governor's Commission on Higher Education and the Economy "only 11 states have a smaller portion of their populations who have earned baccalaureate degrees." The report concludes that Ohio's economic growth and prosperity are inextricably linked to increasing the number of Ohioans who participate in and succeed in higher education.

The Tuition Trust's mission is to offer affordable, innovative and tax-advantaged college investment products to increase participation in higher education. Initially, the Tuition Trust offered Ohioans a unit-based prepaid tuition program. The Guaranteed Savings Fund was designed to help families keep pace with rising tuition costs at the state's public universities. The state provided income tax exemption on earnings as an incentive for families to save. In 1994, the Ohio General Assembly supported a constitutional amendment to provide the state's full faith and credit backing to the Fund. In November 1994, Ohio voters supported the constitutional amendment putting the state's full financial support behind the program if the Fund could not meet future obligations.

In 1996, Congress established "qualified state tuition programs" adding section 529 to the IRC. Ohio's program fell under guidelines established for "Sec. 529 plans." The 1996 law paved the way for more states to begin their own college savings programs and broadened the tax incentives and savings options that could be offered. Today, every state and the District of Columbia have a 529 plan.

In 1999, the Tuition Trust introduced legislative changes to the agency's statute to take advantage of federal changes to offer tax-advantaged, market-based choices. The Ohio General Assembly supported the Tuition Trust's decision to offer investment choice for Ohioans and unanimously approved the legislative changes. The General Assembly also expanded the tax incentive by providing a \$2,000 state tax deduction on contributions to the Tuition Trust's college savings program.

The Tuition Trust undertook an extensive, competitive bid process to select and hire a firm to provide investment management, marketing and administrative services for the new investment options. In 2000, the Tuition Trust hired Putnam Investments to manage the savings program. The firm was selected for their strong performance, commitment to customer service

and ability to educate and sell the options to consumers through an extensive network of financial advisors.

The OTTA Board deliberately chose to offer the product through investment professionals to expand program access. In October 2000, the Tuition Trust launched the CollegeAdvantage 529 Savings Plan, which incorporated the Guaranteed Savings Fund and new market-based investments.

CollegeAdvantage is sold through financial advisors and directly through the Tuition Trust. The advisor sold component offers 17 market-based options managed by Putnam and sold nationwide through financial advisors. The advisor-sold program is overseen by the Tuition Trust but marketed and administered by Putnam. The direct sold program is overseen, marketed and administered by the Tuition Trust and offers the same investment options at a lower cost to Ohio residents.

Over the last four years, CollegeAdvantage has experienced significant growth. Through March, over \$1.1 billion has been invested in Ohio through CollegeAdvantage on behalf of 186,000 beneficiaries. The average account value is \$7,500.

While CollegeAdvantage has been successful in Ohio and across the country, the Tuition Trust continues to refine Ohio's 529 plan to meet the diverse needs families saving for college. In the spring of 2003 the Tuition Trust commissioned a telephone survey of Ohioans with relatives under 18 to whom they felt some obligation to help with college. Among respondents who were saving, bank accounts were the most popular vehicle. While 9% were using CollegeAdvantage to save, 28% were using taxable investments. Fully half of all respondents were not saving for college.

Many respondents indicated they preferred a savings vehicle, with FDIC backing. Research also indicated that two-thirds of potential investors considered themselves to be "do-it-yourself" investors and would not seek the advice of financial advisors.

To meet the needs uncovered through our research, the Tuition Trust took a two-step approach to broaden program appeal. In January 2004, the Tuition Trust issued an RFP to index fund managers for low-cost index options that would appeal to "do-it yourself" investors. Through a competitive selection process the Tuition Trust hired the Vanguard Group in March 2004. In May, the Tuition Trust added 15 Vanguard index options to CollegeAdvantage.

The Tuition Trust will soon issue an RFP to Ohio banking institutions for a 529 savings account and at least one time deposit product insured by the FDIC. The goal is to introduce these products within the next year. The bank products would be available through a variety of the bank's distribution channels including branch locations, online bank centers, call centers, workplace programs, and other access points. With the addition of these products, the Tuition Trust will offer a well-rounded, diversified product line-up with appeal to Ohioans across all levels of income and investment experience.

In addition to offering broad investment choices, the Tuition Trust also encourages families to save for college by offering flexible contribution methods such as electronic fund transfers (EFT), payroll deduction, online contributions and a low minimum contribution of \$15.

The Tuition Trust also helps make saving for college affordable with some of the lowest fees in the industry through our direct-sold program. While total expense ratios vary by investment option, they can be as low as .35%.

The disclosure and reporting of fees and investment performance has been a critical priority for the Tuition Trust. Recently we completed an overhaul of all offering materials to simplify fee disclosure. These enhancements are

setting a new industry standard for disclosure and full transparency. The Tuition Trust and CSPN support standardizing critical disclosure information such as total expenses, and investment performance as well as establishing best practices for disclosing all legal information.

Ohio's 529 plan is working to increase access to higher education in Ohio by offering a diverse range of investment choices, low fees, affordable minimum contributions, online access, easy contribution options and state tax advantages. These features make Ohio's program unique and tailored to the needs of Ohio families. While disclosure information should be standardized across the 529 industry, each state must be able to shape and define its own plan to meet the unique needs of its citizens.

Our mission is essential if Ohio is to achieve the Governor's goal of increasing participation in postsecondary education by 30% (or 180,000 students) by 2015. Every day we work with families one at a time to support their aspirations to achieve a better future for their children.

Thank you again, Mr. Chairman and Committee Members for your efforts to learn more about Ohio's plan and 529 plans across the country. We look forward to working with you and your Committee. I would be pleased to answer any questions.

